

Message Text

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PAGE 01 NEW DE 09626 200817Z

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ACTION NEA-12

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 6244

C O N F I D E N T I A L NEW DELHI 9626

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: RUPEE NEGOTIATIONS

REF: STATE 162151

1. WE HAVE COME TO STAGE IN NEGOTIATIONS WHERE I BELIEVE IT APPROPRIATE TO PRESENT INDIANS WITH FIRST US DRAFT OF PROPOSED AGREEMENT. MEETING SCHEDULED FOR THIS PURPOSE AUGUST 22.

2. IN DRAFTING PROCESS WE HAVE COME ACROSS NUMBER OF ISSUES WHERE CLARIFICATION POLICY ISSUES AND LEGAL POINTS DESIRABLE. (WE HAVE MADE IT CLEAR TO INDIANS THAT NUMEROUS TECHNICAL REFERENCES WILL NEED TO BE CAREFULLY CHECKED AND POSSIBLY AMENDED AND THESE WILL BE REVIEWED AT LATER DATE.)

3. THIS MESSAGE IS DESIGNED TO SET OUT MY POSITION FOR WASHINGTON EXAMINATION AND COMMENT. UNLESS OTHERWISE INSTRUCTED BEFORE OPENING BUSINESS AUGUST 22, I WILL INCLUDE PROPOSED POSITION IN DRAFT GIVEN TO INDIANS.

4. DEPOSITS IN US BANKS. INDIANS HAVE APPLIED CONSIDERABLE PRESSURE TO GET US TO AGREE TO REDUCE OUR DEPOSITS AS QUICKLY AS POSSIBLE OR AT LEAST NOT TO ADD TO THEM. WE ARE TAKING POSITION DEPOSITS ARE USG HOLDINGS AND THE USG RIGHT TO RETAIN THESE ACCOUNTS SHOULD BE RECOGNIZED. I MEAN TO KEEP OUR MONEY WHERE IT IS.

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PAGE 02 NEW DE 09626 200817Z

5. US BANKS HAVE APPROACHED US AND SOUGHT ASSURANCES THAT

THERE WOULD BE NO REDUCTION IN OUR DEPOSITS OR AT LEAST THAT REDUCTIONS WOULD ONLY TAKE PLACE AFTER ALL HOLDINGS WITH GOI EXHAUSTED. THIS IS NO MORE THEIR BUSINESS THAN IT IS THE GOVERNMENT OF INDIA'S, AND I HAVE MADE NO PLEDGE TO MAINTAIN OUR ACCOUNTS INDEFINITELY. (BANKS APPEAR ACCEPT THIS.)

6. MOV. INDIANS HAVE RESISTED INCLUSION MOV PROVISION BUT AM HOPEFUL WE CAN WORK SOMETHING OUT. WITH FLOATING OF CURRENCIES AT LEAST SUPPLEMENTING FORMAL DEVALUATIONS IT DIFFICULT WORD SUCH PROVISION IN EQUITABLE MANNER. FOR EXAMPLE, WOULD RUPEE BALANCES BE ADJUSTED IF RUPEE FLOATED FOR ONLY ONE DAY BELOW LEVEL EXISTING ON DATE OF AGREEMENT. BELIEVE IT MORE EQUITABLE TO MAKE MOV APPLICABLE ON ANNUAL BASIS; E.E., IF AS RESULT FORMAL GOI DEVALUATION OR FLOAT RUPEE HAS DEPRECIATED IN VALUE IN RELATION TO DOLLAR, USG RUPEE HOLDINGS WOULD BE INCREASED PROPORTIONATELY. WE ARE WORKING OUT POSSIBLE LANGUAGE WHICH WE WILL CABLE SEPARATELY.

7. NEPAL. AS INDICATED REFTEL USE OF USG RUPEES FOR NEPALESE AID PROGRAMS IS BEING STRONGLY RESISTED BY GOI. UNLIMITED USE (IN DURATION OR AMOUNT) NOT CONTEMPLATED IN INSTRUCTIONS AND I PLAN TO PROPOSE TEN YEAR USE AT \$8 MILLION PER YEAR (SUBJECT TO NORMAL PRICE INCREASES). I SERIOUSLY DOUBT THAT THIS CAN BE NEGOTIATED BUT I SHALL SEEK MAXIMUM FEASIBLE RUPEE FUNDING IN VIEW STRONG CONGRESSIONAL INTEREST THIS SUBJECT.

8. AS NOTED REFTEL, USE OF OUR RUPEES FOR EMBASSY KATHMANDU'S EXPENDITURES WITHOUT TIME LIMIT SEEMS NEGOTIABLE. FUNDING OF TRANSIT AND PORT CHARGES FOR GOODS DESTINED FOR NEPAL WILL REQUIRE FURTHER NEGOTIATION.

9. ACCOMMODATION EXCHANGE. INDIANS HAVE RAISED NO OBJECTION TO CONTINUED PROVISION ACCOMMODATION EXCHANGE AS WELL AS TOURIST AND FOUNDATION USES. WE WOULD APPRECIATE WASHINGTON ASSURANCE THAT THERE EXISTING STATUTORY BASIS TO CONTINUE PRESENT EXCHANGE PRACTICES, DRAWING SOLELY ON NON-PL-480 RUPEES. PRESUME THIS IS CASE FOR EMBASSY ACCOMMODATION, SINCE NO EXPENDITURE USG FUNDS INVOLVED, BUT WE ARE NOT SURE TOURISTS AND FOUNDATION ARRANGEMENTS CAN BE CONTINUED.

CONFIDENTIAL

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PAGE 03 NEW DE 09626 200817Z

10. COOLEY LOANS. BELIEVE IT HIGHLY DESIRABLE WE ASSIGN OUTSTANDING COOLEY LOANS TO GOI FOR FULL VALUE PAYMENT. THIS DESIRED BY INDIANS AND FITS INTO LOGIC OF OVERALL PACKAGE WHEREBY WE RETURN ALL PL-480 RUPEES WHILE RETAINING ALL NON-PL-480 RUPEES. MAINTAINING OUR COOLEY PORTFOLIO INVOLVES SIGNIFICANT AND EXPENSIVE INVESTMENT OF USAID STAFF TIME; AS TO SOME LOANS, THERE IS PENDING LITIGATION WHICH MAY DRAG ON FOR MANY YEARS. CESSION TO GOI WOULD ELIMINATE ALL USG

OBLIGATIONS AND INVOLVEMENT WHILE RIGHTS AND OBLIGATIONS OF
BORROWERS WOULD REMAIN UNTOUCHED.
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